



FEDERAL ELECTION COMMISSION
WASHINGTON, D.C. 20463

February 8, 2008

MEMORANDUM

To: Thomasenia P. Duncan
General Counsel

Through: Patrina M. Clark *PM*
Staff Director

From: John D. Gibson *JG*
Chief Compliance Officer

Joseph F. Stoltz *JFS*
Assistant Staff Director
Audit Division

Tom Hintermister *TH*
Audit Manager

By: Rickida Morcomb *RM*
Lead Auditor

Subject: Dallas County Republicans (A07-04) – Referral Matter

AUDIT REFERRAL # 08-02

On December 18, 2007, the final audit report on the Dallas County Republican Party (DCRP) was forwarded to the Commission. At this time, the Commission does not have a quorum necessary to take any action on the final audit report. However, the final audit report does contain two findings that meet the criteria for referral. Finding 1- Misstatement of Financial Activity includes the misstatement of both receipts and disbursements in 2006 which meet the criteria for referral to OGC. Also, Finding 5- Disclosure of Disbursements meets the criteria for referral to ADR. Therefore, both matters are being referred to your office. It is noted that DCRP amended reports that corrected the misstatement of financial activity as well as the disclosure of disbursements. As such, these matters may be best suited for ADR.

All work papers and related documentation are available for review. Should you have any questions regarding this matter, please contact Rickida Morcomb or Thomas Hintermister at 694-1200.

Attachments: Finding 1. Misstatement of Financial Activity
Finding 5. Disclosure of Disbursements

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Finding 1. Misstatement of Financial Activity

Summary

A comparison of DCRP's reported financial activity to the bank records revealed a misstatement of receipts and disbursements in both 2005 and 2006. DCRP under reported receipts and disbursements in 2005 by \$8,846 and \$3,216, respectively. In 2006 DCRP under reported receipts by \$169,712 and disbursements by \$192,118. Most of the discrepancies were due to not reporting in-kind contributions, transfers from the non-federal account, and transfers to other party committees. DCRP complied with the Audit staff's recommendations by filing amended reports that corrected the misstatements.

Legal Standard

Contents of Reports. Each report must disclose:

- The amount of cash on hand at the beginning and end of the reporting period;
- The total amount of receipts for the reporting period and for the calendar year; and
- The total amount of disbursements for the reporting period and for the calendar year;
- Certain transactions that require itemization on Schedule A (Itemized Receipts) or Schedule B (Itemized Disbursements). 2 U.S.C. §434(b)(1), (2), (3), (4), and (5).

Facts and Analysis

The Audit staff reconciled the reported financial activity to the bank records and determined there was a misstatement of receipts and disbursements in 2005 and 2006. The following chart outlines the discrepancies.

2005 Activity¹			
	Reported	Bank Records	Discrepancy
Beginning Cash Balance January 1, 2005	\$12,247	\$12,397	\$150 Understated
Receipts	\$291,239	\$300,085	\$8,846 Understated
Disbursements	\$285,757	\$288,973	\$3,216 Understated
Ending Cash Balance December 31, 2005	\$17,729	\$23,509	\$5,780 Understated

Opening Cash Balance 2005

The \$150 understatement of beginning cash on hand was a result of an unexplained difference from the previous year.

Receipts 2005

The understatement of receipts in 2005 was because DCRP did not report in-kind contributions from the 2005 Lincoln Day Dinner silent auction, totaling \$8,846.

Disbursements 2005

The net understatement of disbursements in 2005 was a result of the following:

¹ Figures have been rounded to the nearest dollar.

• Unreported Allocable Activity - DCRP did not report on Schedules H-4 disbursements for shared federal/non-federal activity.	+	\$ 2,276
• Unreported In-kind Contributions - DCRP did not report in-kind contributions from the 2005 Lincoln Day Dinner silent auction.	+	8,846
• Over reported Allocable Activity - DCRP reported disbursements for shared federal/non-federal activity on Schedules H-4 that never occurred.	-	2,866
• Over reported Disbursement - DCRP reported a disbursement to an affiliated committee but the check did not clear the bank account.	-	5,000
• Unexplained difference	-	<u>40</u>
Net Understatement of Disbursements		<u>\$ 3,216</u>

Ending Cash Balance

The \$5,780 understatement of ending cash on hand resulted from the misstatements described above.

2006 Activity			
	Reported	Bank Records	Discrepancy
Opening Cash Balance January 1, 2006	\$17,729	\$23,509	\$5,780 Understated
Receipts	\$620,434	\$790,146	\$169,712 Understated
Disbursements	\$608,119	\$800,237	\$192,118 Understated
Ending Cash Balance December 31, 2006	\$13,232²	\$13,418	\$186 Understated

² This figure does not foot due to a mathematical discrepancies in calculating cash balances throughout 2006.

Receipts 2006

The understatement of receipts in 2006 was the result of the following:

• Unreported Receipts from Individuals - DCRP did not report receipts from individuals on Schedules A.	+	\$ 2,997
• Unreported Transfers - DCRP did not report on Schedules H-3 transfers from the non-federal account to pay for allocable activity.	+	98,000
• Unreported Transfers for Non-allocable Activity - DCRP did not report a transfer from the non-federal account used to pay the state party for a non-federal mailing ³ .	+	53,000
• Unreported In-kind Contributions - DCRP did not report in-kind contributions from the 2006 Lincoln Day Dinner silent auction.	+	7,780
• Unexplained difference	+	<u>7,935</u>
Understatement of Receipts		<u>\$169,712</u>

Disbursements 2006

The net understatement in 2006 of disbursements was due to the following:

• Unreported Disbursements - DCRP did not report payments made to the Republican Party of Texas for non-federal mail pieces on Schedules B.	+	\$ 177,000
• Unreported Allocable Activity - DCRP did not report disbursements for shared federal/non-federal activity on Schedules H-4.	+	14,099
• Unreported Disbursements - DCRP did not report other federal disbursements on Schedules B.	+	749
• Unreported In-kind Contributions - DCRP did not report in-kind contributions from the 2006 Lincoln Day Dinner silent auction.	+	7,780
• Over Reported Allocable Activity - DCRP over reported disbursements for federal/non-federal activity on Schedules H-4.	-	7,089
• Over Reported Disbursement - DCRP over reported a disbursement on Schedule B.	-	2,247

³ DCRP transferred \$129,000 from the non-federal account to the federal account but did not report \$53,000 of the transfer. Documentation established that these funds were used to pay the Republican Party of Texas for direct mailers that mentioned only non-federal candidates. Subsequently, a total of \$177,000 was paid to the Republican Party of Texas for non-federal mail pieces.

• Unexplained difference	+ 1,826
Net Understatement of Disbursements	<u>\$192,118</u>

Ending Cash Balance 2006

DCRP misstated their cash balances throughout 2006. The misstatement was due to the adjustments described above as well as mathematical discrepancies in calculating the cash balance on the Detailed Summary Pages.

This matter was presented to DCRP during the exit conference. DCRP representatives stated the misstatement could have been the result of software error.

Interim Audit Report Recommendation and Committee Response

The Audit staff recommended DCRP file amended reports to correct the misstatements detailed above and amend their most recently filed report to correct the cash on hand balance. DCRP filed the requested amended reports for 2005 and 2006 that materially corrected the misstatement for receipts and disbursements. DCRP also amended the most current report to correct the cash on hand balance.

Finding 5. Disclosure of Disbursements**Summary**

The Audit staff identified disbursements totaling \$344,013 that lacked or inaccurately disclosed the required information. DCRP disclosed incorrect amounts, incorrect payment dates, as well as incorrect and inadequate purposes. In addition, DCRP did not properly itemize payments and memo entries for reimbursements to individuals. DCRP filed amended reports materially complying with the Audit staff's recommendation.

Legal Standard

A. Reporting Operating Expenditures. When operating expenditures to the same person exceed \$200 in a calendar year, the committee must report the:

- Amount;
- Date when the expenditures were made;
- Name and address of the payee; and
- Purpose (a brief description of why the disbursement was made—see below). 2 U.S.C. §434(b)(5)(A) and 11 CFR §104.3(b)(3)(i).

B. Examples of Purpose.

- **Adequate Descriptions.** Examples of adequate descriptions of "purpose" include the following: dinner expenses, media, salary, polling, travel, party fees, phone banks, travel expenses, travel expense reimbursement, catering costs, loan repayment, or contribution refund. 11 CFR §104.3(b)(3)(i)(B).
- **Inadequate Descriptions.** The following descriptions do not meet the requirement for reporting "purpose": advance, election day expenses, other expenses, expense reimbursement, miscellaneous, outside services, get-out-the-vote, and voter registration. 11 CFR §104.3(b)(3)(i)(B) and Commission Policy Statement at www.fec.gov/law/policy/purposeofdisbursement/inadequate_purpose_list_3507.pdf.

C. Special Rule for Reporting Reimbursements to Staff for Travel and Subsistence Advances. If the total amount reimbursed to the staff member is \$500 or less, the committee should report the staff member as the payee. If the total amount exceeds \$500 and payments to any one vendor used for the expenses total over \$200 for the election cycle, the committee must:

- Report the staff member as payee; and
- Report the payments aggregating over \$200 to any one vendor as memo entries on Schedules B. Advisory Opinion 1996-20, footnote 3

Facts and Analysis

The Audit staff identified 104 disbursements, totaling \$344,013, which were inaccurately disclosed. The following summarizes the types of disclosure issues:

- Three disbursements totaling \$3,956 had the incorrect amount reported.
- Seven disbursements totaling \$27,575 had the incorrect payment date reported.
- Forty-four disbursements totaling \$97,222 involved staff reimbursements without memo entries disclosing the original vendor.
- Fifty disbursements totaling \$215,261 had the incorrect or inadequate purpose reported.

With respect to staff reimbursements, DCRP erroneously reported the vendors instead of the staff member as the payee. Since payment was made to the staff member, DCRP should have reported the staff member as the original payee followed by memo entries disclosing the vendors (name, date, amount, and purpose) on Schedules B (Itemized Disbursements).

With respect to the reporting of incorrect or inadequate purposes, DCRP sometimes reported generic classifications from its software system as the purpose for the disbursement. These purposes included professional fees and fundraising consultant. The Audit staff determined that from such descriptions a person would not easily discern why the disbursements were made when reading the name of the payee and the purpose. DCRP representatives stated during the exit conference that the purposes were sometimes vague because the software the committee used did not allow enough space to provide detailed purposes.

Interim Audit Report Recommendation and Committee Response

The Audit staff recommended DCRP file amended reports correctly disclosing the required information. In response, DCRP filed amended reports that materially corrected the reporting issue noted above.

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